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Mr. Borden

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ROYAL COMMISSION ON ENERGY
SUPPLEMENTARY STATEMENT
OF
NORTHERN NATURAL GAS COMPANY

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SUPPLEMENTARY STATEMENT
OF
NORTHERN NATURAL GAS COMPANY

The purpose of Northern's main submission now on file with this Commission is to present data and information which show that Northern's pipeline system and markets provide a desirable export market for Canadian gas. While this continues to be the only purpose for Northern's submission and appearance before this Commission, testimony recently given concerning transactions and negotiations between Trans-Canada Pipelines Limited and Northern makes it incumbent upon Northern to supplement its submission with the following:

- (1) A copy of the contract dated September 16, 1954 between Northern and Trans-Canada (Schedule A)
A copy of the letter agreement extending the Contract to April 30, 1955 (Schedule B)
- (2) Documents evidencing the continued negotiations of Northern and Trans-Canada (Schedules C, D, E and F)
- (3) Documents evidencing negotiations between Tennessee Gas Transmission Company and Trans-Canada prior to Trans-Canada's termination of its contract with Northern (Schedules G and H).

Respectfully Submitted,

J. F. Merriam
President

750A

September 16, 1954

Mr. John F. Merriam, President
Northern Natural Gas Company
2223 Dodge Street
Omaha, Nebraska

Dear Mr. Merriam:

As we have previously discussed in our several recent meetings, Trans-Canada Pipe Lines Limited, hereinafter sometimes called "Trans-Canada", proposes to construct a large diameter natural gas pipe line from the Province of Alberta, Canada, to a point at or near the City of Winnipeg, Manitoba, and thence to Eastern Canada. In connection with the sale hereinafter provided for, Trans-Canada also proposes to construct lateral lines from said main pipe line, one of which will begin at a point off the main line near Winnipeg and will run south to a point near the Town of Emerson, Manitoba, and another of which will run from a point off the main line to a point at or near either the Town of Estevan or the Town of North Portal, Saskatchewan, on the international boundary line.

Trans-Canada desires to sell to Northern Natural Gas Company, hereinafter sometimes called "Northern", and Northern desires to purchase from Trans-Canada, the volumes of natural gas at the prices, at the delivery point or points and upon the terms and provisions set out herein, and this letter constitutes our agreement concerning same.

1. Trans-Canada will deliver and sell to Northern at a mutually acceptable delivery point on the international boundary line near Emerson, Manitoba, Canada, on the west side of the Red River, but not more than four (4) miles west of said river, up to a maximum of 100 million cubic feet (100,000 MCF) of natural gas daily, with first delivery and receipt to be commenced on October 27, 1955, or at such earlier date as may be agreed upon between the parties.

2. Trans-Canada will deliver and sell to Northern, beginning October 27, 1956, an additional quantity of 50 million cubic feet (50,000 MCF) of natural gas daily, said gas to be delivered at the option of Northern either at said point of delivery near Emerson or at a mutually agreeable point of delivery at or near the Town of Estevan or North Portal in the Province of Saskatchewan on the international boundary line.

3. In addition to the foregoing volumes of natural gas, Trans-Canada will endeavor to obtain all requisite approval and permits from all regulatory bodies of Canada having jurisdiction authorizing it to sell to Northern an additional quantity of 50,000,000 cubic feet (50,000 MCF) of natural gas beginning October 27, 1957, and, if all requisite authority and approval are so obtained by Trans-Canada, then Trans-Canada will deliver and sell to Northern, beginning on said date, said additional quantity of 50,000 MCF of natural gas, and out of the total quantity of 200,000 MCF of natural gas then deliverable by Trans-Canada to Northern hereunder, 150,000 MCF thereof shall be delivered at said point of delivery near Emerson, Manitoba, and the remaining 50,000 MCF may, at Northern's option, be delivered at said point of delivery near the Towns of Estevan or North Portal. It is provided, however, that in the event Trans-Canada has not procured all requisite approval and permits from all regulatory bodies of Canada having jurisdiction authorizing it to sell to Northern such additional quantity of gas by December 31, 1955, then Northern may terminate its obligation to receive and purchase such additional quantity from Trans-Canada by giving to Trans-Canada within the next succeeding thirty (30) days written notice of its election so to terminate.

4. If, in addition to the foregoing volumes of natural gas, Trans-Canada estimates it will have available an additional quantity of 50,000,000 cubic feet (50,000 MCF) available for export west of Lake Superior beginning October 27, 1958, then, as soon as is reasonably convenient for Trans-Canada to do so, but in any event prior to July 1, 1957, Trans-Canada shall notify Northern that it anticipates that it will have such gas available for sale and the price, terms and conditions under which such gas will be so available. Northern, on or before September 30, 1957, shall advise Trans-Canada whether Northern desires to so purchase such volume of gas at such price and upon such terms and conditions. In the event Northern elects not to purchase such gas, its right to purchase provided for in this Paragraph 4 shall automatically terminate. In the event Northern so advises Trans-Canada that Northern does desire to so purchase such volume of gas, Trans-Canada and Northern will endeavor to secure all requisite approval and permits from such regulatory bodies having jurisdiction authorizing such purchase and sale and if all such authority and approval be obtained by Trans-Canada and Northern, then Trans-Canada will deliver and sell to Northern beginning October 27, 1958 said additional volume of gas.

5. If, in addition to the foregoing volumes of natural gas, Trans-Canada estimates it will have available an additional quantity of 50,000,000 cubic feet (50,000 MCF) available for export west of Lake Superior beginning October 27, 1959, then, as soon as is reasonably convenient for Trans-Canada to do so, but in any event prior to July 1, 1958, Trans-Canada shall notify Northern that it anticipates that it will have such gas available for sale and the price, terms and conditions under which such gas will be so available. Northern, on or before September 30, 1958, shall advise Trans-Canada whether Northern desires to so purchase such volume of gas at such price and upon such terms and conditions. In

the event Northern elects not to purchase such gas, its right to purchase provided for in this Paragraph 5 shall automatically terminate. In the event Northern so advises Trans-Canada that Northern does desire to so purchase such volume of gas, Trans-Canada and Northern will endeavor to secure all requisite approval and permits from such regulatory bodies having jurisdiction authorizing such purchase and sale and if all such authority and approval be obtained by Trans-Canada and Northern, then Trans-Canada will deliver and sell to Northern beginning October 27, 1959 said additional volume of gas.

6. Notwithstanding the actions of either party pursuant to the provisions of Paragraphs 3, 4 and 5 hereof, Trans-Canada hereby grants to Northern, or its nominee, a preferential right, during the term of this agreement, to purchase all gas (excluding such gas as has been offered to Northern by Trans-Canada and Northern has declined to purchase) which Trans-Canada may have available for export into an area in the United States bounded upon the east side by a line running south from the intersection of the international border and Lake Superior and on the west side by a line running south from the intersection of the state boundary line between North Dakota and Montana and the international boundary.

7. So long as the quantity of natural gas to be delivered at the point of delivery near Emerson hereunder is 100,000 MCF, said gas shall be delivered at said point at a pressure of at least 400 pounds per square inch gauge. In the event and when the maximum quantity of gas to be delivered at the delivery point near Emerson hereunder is 150,000 MCF daily, said quantity shall be delivered at said point at a pressure of at least 450 pounds per square inch gauge. In the event the maximum quantity of gas to be delivered at the delivery point near Emerson hereunder is 200,000 MCF daily, said quantity shall be delivered at said point at a pressure of at least 500 pounds per square inch gauge. In the event and when the quantity of 50,000 MCF of gas is to be made available at the point of delivery at or near the Towns of Estevan or North Portal, said quantity shall be delivered at said point at a pressure of at least 400 pounds per square inch gauge.

8. The unit of measurement for the natural gas to be delivered under this Agreement shall be one cubic foot at a base temperature of 60 degrees Fahrenheit and at a base pressure of 14.4 pounds per square inch absolute.

9. The gas to be delivered hereunder shall contain not less than 950 British Thermal Units (B.T.U.) per cubic foot. The monthly bill, the demand and commodity rates, the billing demand and the minimum bills provided for herein all contemplate gas deliveries hereunder which shall have an average total heating value of 1,000 British Thermal Units per cubic foot. In the event that the average total heating value of the gas per cubic foot, measured on a dry basis at a pressure equal to 30 inches of mercury and at a temperature of 60° Fahrenheit, in any month falls above or below 1,000 B.T.U., an adjustment shall be made in the total amount which Northern would otherwise pay for gas delivered during such month if the total heating value were 1,000 B.T.U., provided however that no price adjustment shall be made for deliveries of natural gas having an average total heating value of more

than 1,050 British Thermal Units per cubic foot. Such adjustment shall be determined by multiplying said amount so otherwise payable by a fraction, the numerator of which is a monthly arithmetical average total heating value per cubic foot and the denominator of which is 1,000.

10. The services rendered and the gas delivered hereunder shall be paid for in accordance with the following rates:

(a) For the services rendered and deliveries to be made near Emerson, a monthly demand rate of \$2.10 per MCF of billing demand and a commodity rate of \$0.20 per MCF of gas delivered.

(b) For the services rendered and deliveries to be made near Estevan or North Portal, a monthly demand rate of \$1.80 per MCF of billing demand and a commodity rate of \$0.19 per MCF of gas delivered.

11. The billing demand at each point of delivery shall be that volume which is equal to the maximum volume of gas Trans-Canada is obligated to deliver per day at such point of delivery in accordance with the foregoing provisions of Paragraphs 1, 2 and 3 above. For example:

(a) The billing demand from October 27, 1955, to October 27, 1956, at the point of delivery at Emerson shall be 100,000 MCF.

(b) In the event Northern elects to receive the additional quantity of 50,000 MCF of gas referred to in Paragraph 2 above at Emerson, the billing demand at said point of delivery shall increase on October 27, 1956, to 150,000 MCF.

(c) In the event Northern elects to receive such additional quantity of 50,000 MCF of gas referred to in Paragraph 2 above at Estevan or North Portal, then, commencing October 27, 1956, the billing demand at Emerson shall be 100,000 MCF and the billing demand at Estevan and North Portal will be 50,000 MCF.

(d) In the event the 50,000 MCF of gas referred to in Paragraph 3 above is made available, then on October 27, 1957, the billing demand at Emerson shall be increased to 200,000 MCF, except that if Northern has elected to take delivery of 50,000 MCF of such total quantity at Estevan or North Portal, then the billing demand at Emerson shall be 150,000 MCF and the billing demand at Estevan and North Portal shall be 50,000 MCF.

12.

(a) The minimum monthly bill of Northern hereunder for the services rendered and gas delivered at each point of delivery hereunder shall be the sum of:

I. The demand charge times the billing demand expressed in MCF; plus

II. The Commodity charge times the billing demand times the number of days in the

particular calendar month being billed times
.55.

(b) The minimum annual bill of Northern hereunder for the services rendered and gas delivered at each point of delivery hereunder shall be the sum of:

- i. The demand charge times the billing demand expressed in MCF times twelve; plus
- ii. The commodity charge times the billing demand times the number of days in the particular annual period being billed times .75.

13. The commodity and demand rates set forth in Paragraph 10 shall apply from and after the date of first delivery hereunder for a period of five (5) years.

During the five-year period commencing at the expiration of the first five-year period and ending five (5) years after the commencement of such second five-year period and during each subsequent five-year period during the remaining term of this agreement, the commodity and demand rates shall be determined by negotiation and agreement by Trans-Canada and Northern as the fair, just and reasonable rates to be paid during each such five-year period.

Representatives of Trans-Canada and Northern shall meet and negotiate as frequently as necessary commencing six (6) months preceding the date in which the price to be paid hereunder is subject to possible change, for determination of the price to be paid during the ensuing five-year period.

In the event the parties hereto shall be unable to agree within thirty (30) days upon such rates then the fair, just and reasonable rates to be paid for gas delivered hereunder shall be determined by arbitration. For the purpose of arbitration, Trans-Canada and Northern shall each select one arbitrator and the two arbitrators shall select a third. A decision of a majority of said arbitrators, made in writing and delivered to the parties hereto, shall be binding. In the event the two arbitrators are unable to agree upon such third arbitrator, such third arbitrator shall be selected by a method to be agreed upon by the parties prior to the execution of the formal contract required herein. Such arbitrators shall render a decision within sixty (60) days following appointment of the first arbitrator.

It is agreed that the rates specified in Paragraph 10 are fair, just and reasonable at the time this agreement is entered into under presently existing circumstances.

14. The gas deliverable hereunder

(a) Shall be commercially free from dust or other solids or liquids which might interfere with its merchantability or cause injury to or interference with proper operation of the lines, regulators, meters or other appliances through which it flows; and

(b) Shall not contain more than one grain of hydrogen sulphide or twenty grains of total sulphur per one hundred cubic feet of gas as determined by standard methods of testing nor more than seven pounds of water vapor per million cubic feet of gas.

15. The gas delivered hereunder shall be measured by orifice meter or meters of standard manufacture installed, operated and maintained by Trans-Canada at or near the point or points of delivery hereunder.

16. Bills for the services rendered and gas delivered hereunder shall be rendered monthly by Trans-Canada to Northern and Northern shall dispatch to Trans-Canada for the services rendered and gas delivered hereunder, on or before the twentieth day of each month or ten days following the presentation of a bill to Northern by Trans-Canada, whichever is later, in Canadian funds, at Trans-Canada's office in Calgary, Alberta, or at such other address in Canada as may be designated by Trans-Canada.

17. The term of this Agreement, and the formal contract to be executed pursuant hereto, shall be for a period from the date of acceptance hereof by Northern to twenty-five years following the date of first delivery of gas hereunder and thereafter from month to month until terminated by either party giving sixty days' notice in writing of such party's election to so terminate at the expiration of any such month.

18. The agreements on the part of each party hereto are, of course, subject to their obtaining all requisite approvals and permits from all regulatory bodies in Canada and the United States of America having jurisdiction over the matters contemplated hereby including, but without limitation, a permit to Trans-Canada to export from Canada the quantities of gas deliverable hereunder to Northern, the financing and completion of such proposed pipe line project by Trans-Canada in accordance with its present permit, the purchase and transportation by Trans-Canada of the requisite volumes of gas necessary to meet its commitments to Northern hereunder, a permit to Northern to import the gas deliverable hereunder into the United States of America, a certificate of convenience and necessity to construct the facilities necessary to receive such gas, and Northern's financing and construction of the necessary facilities therefor. The agreements on the part of each party hereto are further subject to the approval of counsel for Trans-Canada as to the sufficiency, for the purpose of enabling the parties to fully perform this agreement, of all approvals and permits to be obtained from governmental and regulatory bodies in the United States, and to the approval of counsel for Northern as to the same for those to be obtained in Canada, it being understood that approval or disapproval of counsel shall not be unreasonably delayed or arbitrarily withheld.

19. The parties hereto shall proceed forthwith to prepare a formal contract embodying the provisions herein contained and other standard provisions to provide for the sale and receipt of gas agreed to herein, which contracts, when prepared and executed, shall supersede, in all respects, this Letter Agreement.

Mr. John F. Merriam, President

-7-

September 16, 1954

20. Trans-Canada agrees to proceed immediately with the steps necessary to procure the necessary permits and governmental authorities to carry out the provisions hereof, and Northern agrees to commence work immediately upon and continue to proceed with diligence in filing and prosecuting the applications with the Federal Power Commission of the United States of America required to enable Northern to import the gas sold hereunder, to construct the facilities necessary for the receipt of said gas, and, after the procurement of said permits and certificates, to proceed with diligence in the financing and construction of all necessary facilities. In the event Trans-Canada has not received all necessary governmental permits and authority to export the gas deliverable hereunder by December 31, 1954, Northern may terminate this contract by giving written notice to Trans-Canada of its election so to terminate. In the event Northern has not procured all necessary governmental permits, certificates and authority to import the gas deliverable hereunder on or before December 31, 1954, Trans-Canada may terminate this contract by giving written notice to Northern of its election so to terminate.

If the foregoing correctly reflects your understanding of our Agreement, please signify your agreement and approval by signing the copy of this letter at the place designated below and returning same to us.

Yours very truly,

TRANS-CANADA PIPE LINES LIMITED,

By

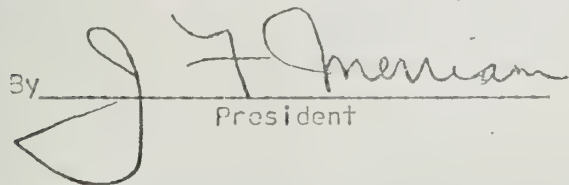


President

Agreed to and approved this
17th day of September, 1954:

NORTHERN NATURAL GAS COMPANY,

By



President

TRANS-CANADA PIPE LINES LIMITED

505 EIGHTH AVENUE WEST

CALGARY, ALBERTA

December 13, 1954.

Mr. John F. Merriam,
President,
Northern Natural Gas Company,
2223 Dodge Street,
OMAHA, Nebraska.

Dear Mr. Merriam:

With reference to the Agreement dated September 16, 1954, between Trans-Canada Pipe Lines Limited and Northern Natural Gas Company, this is to evidence our agreement to amend said Agreement by extending the dates set forth in Paragraph 20 thereof from December 31, 1954, to April 30, 1955.

Except for the above amendment, said Agreement dated September 16, 1954, is and shall remain in full force and effect as written.

If the foregoing correctly reflects your understanding of our agreement, please signify your agreement and approval by signing the copy of this letter at the place designated below and returning same to us.

Yours very truly,

TRANS-CANADA PIPE LINES LIMITED,

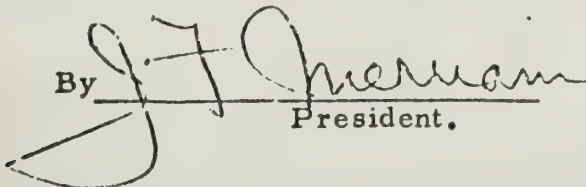


President.

AGREED TO AND APPROVED this

27th day of December
1954.

NORTHERN NATURAL GAS COMPANY

By 
President.

Mr. Harriam

NORTHERN NATURAL GAS COMPANY

2720 BODGE STREET

OSHTANA, NEBRASKA

March 17, 1955

Mr. N. E. Tanner, President of Trans-Canada Pipelines Limited, called me today and stated that Canadian gas cannot be made available for export to Northern Natural Gas Company this year.

This means, of course, that Northern will be required to change its plans for its 1955 construction program as outlined in the various applications now pending before the Federal Power Commission.

The reason for the delay, according to Mr. Tanner, is that his company is unable to obtain acceptable finance agreements in time to complete the project this year. He further stated that Trans-Canada will continue its plans for the project with the expectation of making gas available for export to Northern in 1956.

We are now reviewing our 1955 construction plans in light of the above information just received from Mr. Tanner, and we expect to inform you of our new plans for this year in the near future.

Yours very truly,

President

JF Harriam:mw

TO ALL GAS UTILITIES

TRANS CANADA PIPE LINES LIMITED

P O Box 500

CALGARY ALBERTA

March 23, 1955.

Mr. John F. Merriam,
President,
Northern Natural Gas Company,
2223 Dodge Street,
OMAHA, Nebraska.

Dear John:

This is to confirm our telephone conversation a week ago today, in which I regretfully had to advise you that Trans-Canada Pipe Lines would not be able to go forward with its construction program during 1955. Therefore, it will not be possible for us to deliver gas to you on the dates we had planned.

I shall look forward to discussing this whole matter with you at some future date.

With kindest personal regards, I remain

Yours sincerely,



N.E. Tanner.

March 28, 1955

Dear Eldon:

Thank you for your letter of March 23rd confirming your statement that Trans-Canada Pipe Lines would not be able to go forward with its construction in 1955.

I will be glad to get together with you at your convenience to discuss the Northern Natural-Trans-Canada plans as they will need to be revised to fit the changed circumstances.

With best regards

JFM*Y

Mr. N. E. Tanner
Trans-Canada Pipe Lines Limited
P.O.Box 500
Calgary, Alberta

CC-Mr. W.L.Shomaker
Mr. J.M.Hanley
Mr. M.L.Mead
Mr. E.M.Peterson

TRANS CANADA PIPE LINES LIMITED

P O Box 500

CALGARY ALBERTA

March 28, 1955.

Mr. John Merriam,
President,
Northern Natural Gas Company,
OMAHA, Nebraska.

Dear John:

I did appreciate receiving a copy of your Annual Report for 1954. It is very interesting and informative and I want to congratulate you on the success attained. I hope that we in Trans-Canada will be serving you in the not too distant future.

With kind regards, I am

Yours sincerely,

A handwritten signature in cursive script, appearing to read "Eldon", written in dark ink.

N.E. Tanner.

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TENNESSEE GAS TRANSMISSION COMPANY

PROPOSED CANADIAN - UNITED STATES
INTEGRATED GAS PIPELINE PROJECT

REVISED DRAFT
MAY 3, 1955

PROPOSAL OF TENNESSEE GAS TRANSMISSION COMPANY

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In the event there is a change in the immediate philosophy of the Canadian Government relative to an all-Canadian pipeline, Tennessee Gas Transmission Company wishes to make the following proposal. We believe this proposal (1) will make possible higher prices to the producing companies in the Provinces of Alberta and Saskatchewan, (2) will result in lower cost of gas to utility and industrial customers in Eastern Canada, and (3) will provide an adequate return on the capital invested in facilities from Alberta to Winnipeg.

1. Tennessee Gas will purchase on a 25-year contract 500,000 Mcf per day of gas measured at 15.025 p.s.i.a. at Emerson, Manitoba, such gas to be delivered at the international boundary. Tennessee Gas will pay 23¢ per Mcf for this gas and would take it at not less than 95% load factor and would anticipate taking it as near as possible at a 100% load factor. The effect of this purchase would be to make the line from Alberta to Winnipeg a highly profitable venture.

In support hereof, a schedule worked out by engineers for the Trans-Canada Pipelines showing an assumed 34" pipeline and a sale of 525,000 Mcf per day would indicate that this line could earn 7% on the invested capital and still return to the producers at the Alberta border anywhere from 14 8¢ to 15.4¢ per Mcf during the first five years of operation. These prices to the producers would be approximately 1¢ better than the prices which have been discussed by Trans-Canada for an all-Canadian pipeline. A copy of this calculation is attached to this proposal as Exhibit "A" and is a conservative statement of the investment return which could be expected on such facilities, since it does not give credit to sales in excess of 525,000 Mcf per day between Alberta and the international boundary at Emerson.

2. Tennessee Gas Transmission Company would resell to Trans-Canada, or such agency as would be designated, the entire requirements of Eastern Canadian utilities and industrial customers up to an annual sale of 182,500,000 Mcf measured on the same pressure base as our purchase at Emerson, Manitoba. The price for such resale would be our New York State zone price which is presently \$3.10 per Mcf demand and 28¢ per Mcf commodity, both figures being for gas at 15.025 p.s.i.a. pressure base for delivery at the international boundary at Niagara Falls.

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The effective prices at varying load factors in our New York State zone are as follows:

<u>Load Factor</u> <u>(per cent)</u>	<u>Effective Price</u> <u>per Mcf</u>
100	38.20¢
95	38.70
90	39.30
85	40.00
80	40.80
75	41.60
70	42.60
66.67	43.30
65	43.70
60	45.00
55	46.60
50	48.40
45	50.70
40	53.50

The Canadian agency purchasing such gas would be entitled to a 70% load factor development rate as the maximum charge applicable thereunder, until three years after the start of such service.

Without commenting on the ability of the Canadian agency to maintain high load factor operation through direct industrial sales, it seems to be the consensus that the maximum day during the first year for Eastern Canada, including Union Gas, would not exceed 236,000 Mcf and the average day for the first year would not exceed 197,000 Mcf. In the fifth year the maximum day would appear to be 370,000 Mcf and the average day 310,000 Mcf.

If the Canadian Company is able to sell gas on this basis which is approximately an 85% load factor, it would pay a price of 40¢ (U.S.) per Mcf for gas redelivered at the international boundary. Should such a load factor be realized, the Eastern Canadian utilities would have the benefit of gas from Alberta, 2,200 pipeline miles away, at a cost substantially less than for any such service rendered by any pipeline system in the United States based upon transporting 525,000 Mcf per day, such distance at 85% load factor.

Without the benefit of international legal advice, we presume it would be possible to arrange transportation "in bond" of gas so received from a Canadian supplier and redelivered to a Canadian user and thereby eliminate from the cost to Eastern Canadian utilities the 3¢ per Mcf Canadian import duty now applicable. This saving amounts to 7½% at the 40¢ price and would

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be a saving over and above gas now being purchased from sources in the United States.

Such a transportation or treaty arrangement, if negotiated at a high level, would not only retain all Canadian benefits for Canadian users, but would also eliminate substantially the injection of the Federal Power Commission into Dominion affairs.

The proposal of Tennessee to purchase 500,000 Mcf per day at Emerson and resell the entire requirements of gas to Eastern Canada would benefit (1) producers and thereby provincial revenue in Alberta, (2) investors and thereby the income taxing collections of the Canadian Dominion (as well as making the project self sustaining), and (3) the Eastern Canadian utility and industrial users through the low transportation cost component and the possible elimination of the present Canadian import duty.

It would seem to us that such benefit would be greatly in the public interest, since higher gas purchase prices will encourage development of natural resources, and lower gas sales prices will greatly encourage the public participation in the use of gas and the development of industrial uses in Eastern Canada. If such a treaty arrangement could be made, it seems there would be no point on which all parts of the Canadian economy would not share in the benefits.

To further explain this proposal and the complete integration it would mean for the Canadian producers and users of gas, there is attached to this proposal a map labeled Exhibit "B" which indicates that Tennessee Gas Transmission Company would build a pipeline from Emerson, Manitoba, south of Lake Michigan to connect with its system at Mercer, Pennsylvania. At this point gas entering our system could go direct to Niagara Falls for redelivery to Canada, it could go to our principal storage directly east of Mercer, or it could be resold in existing markets.

It is also contemplated that should this proposal receive favorable consideration by Canadian interests, Tennessee Gas would also offer gas to existing utilities between Emerson and Mercer but would look for the long-time support of such sales to our reserves now under contract on the Gulf Coast.

We are fully conscious that Northern Natural has been a staunch supporter of the western portion of a Canadian pipeline and has contracted to buy up to 150,000 Mcf per day of gas at the international boundary. Because of this fact, Tennessee would agree to make available to Northern at multiple delivery points and with combined billing such gas as necessary to save Northern substantial capital additions and provide it with the means of rendering superior service in Minnesota and Wisconsin. We would anticipate no competition with Northern in this area.

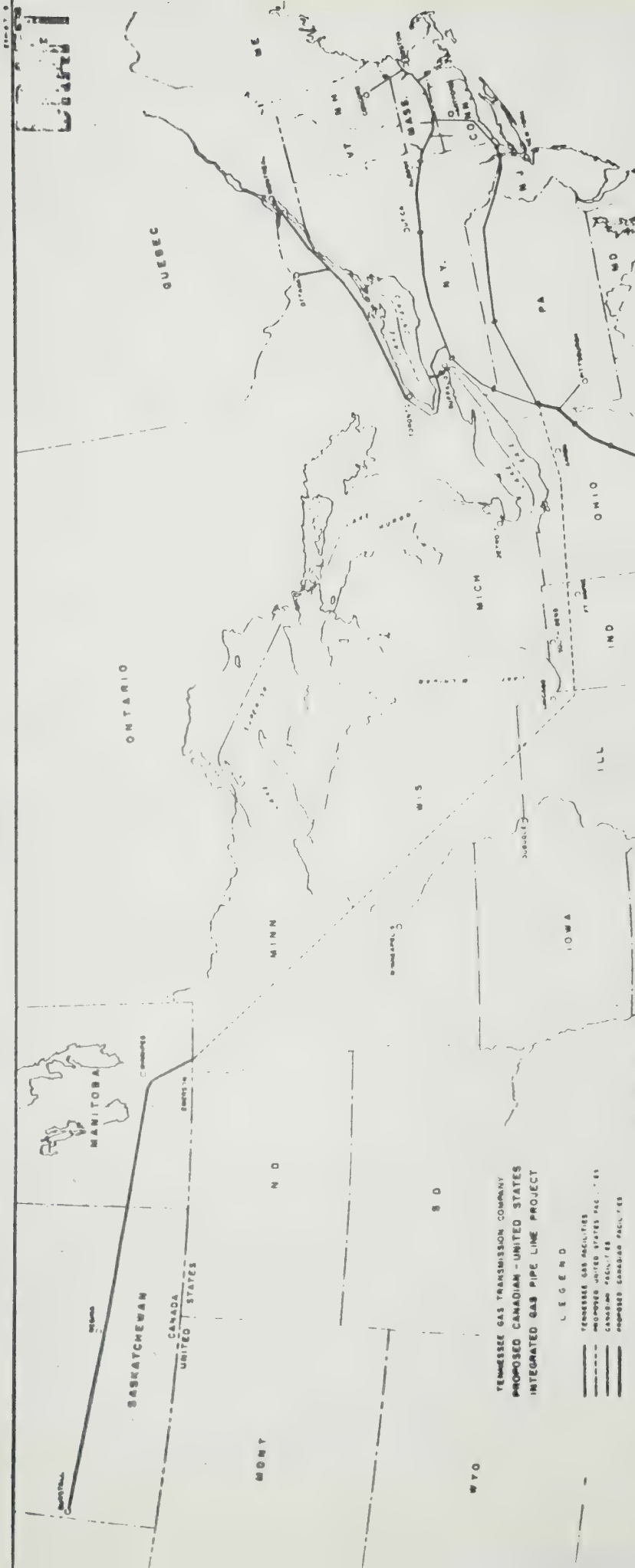
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Tennessee would by virtue of the purchase of 500,000 Mcf per day firm, have the ability to handle offpeak gas of both Canadian and Northern users through its storage operations and to redeliver to Eastern Canada the entire requirements. Thus the same relative saving would inure to Northern customers as to Eastern Canadian customers.

ALL-CANADIAN 34" PIPELINE PROJECT
ALBERTA - WINNIPEG
STATEMENT OF CONSOLIDATED ESTIMATED REVENUES, EXPENSES, AND INCOME
(000 OMITTED)

Particulars	First Five Full Years of Operations				
	1958	1959	1960	1961	1962
Total sales MCF/day	525	525	525	525	525
VOLUME GAS PURCHASE MCF:					
Fuel consumption	3,320	3,320	3,320	3,320	3,320
Losses	1,900	1,900	1,900	1,900	1,900
Gas sold	190,970	190,970	190,970	190,970	190,970
Total	196,190	196,190	196,190	196,190	196,190
Unit cost - cents per MCF	14.0	14.0	14.0	14.25	14.50
GAS REVENUES:					
Unit cost - cents per MCF	22.2	22.0	21.9	21.9	22.1
Total	\$ 42,319	\$ 42,037	\$ 41,752	\$ 41,913	\$ 42,167
REVENUE DEDUCTIONS:					
Cost of gas purchased	\$ 27,467	\$ 27,467	\$ 27,467	\$ 27,957	\$ 28,148
Operation and maintenance	1,041	1,041	1,041	1,041	1,041
Administration and overhead	800	800	800	800	800
Depreciation (344)	3,250	3,250	3,250	3,250	3,250
Taxes - general	610	610	610	610	610
Total	\$ 33,168	\$ 33,168	\$ 33,168	\$ 33,658	\$ 34,149
Utility income - before income taxes	\$ 9,151	\$ 8,869	\$ 8,584	\$ 8,255	\$ 8,018
Interest on debt	4,068	3,908	3,749	3,590	3,430
Amortization of financing expense	50	50	50	50	50
Tax net income	5,033	4,911	4,785	4,615	4,538
Income tax at 45%	2,265	2,210	2,153	2,077	2,042
Net income	2,768	2,701	2,632	2,538	2,496
Return on average net plant	6,886	6,659	6,431	6,178	5,976
of turn	7.0	7.0	7.0	7.0	7.0
Rate of return	98,375	95,125	91,375	88,250	85,375



TENNESSEE GAS TRANSMISSION COMPANY
 PROPOSED CANADIAN-UNITED STATES
 INTEGRATED GAS PIPE LINE PROJECT

LEGEND

- TENNESSEE GAS FACILITIES
- - - PROPOSED UNITED STATES FACILITIES
- CANADIAN FACILITIES
- - - PROPOSED CANADIAN FACILITIES

Tennessee Transmission Offers To Buy Alberta Natural Gas At Emerson While Eastern Market Is Being Built Up For All-Canadian Line

[FINANCIAL POST]
[May 28, 1955]

By MICHAEL BARKWAY
OTTAWA (Staff)—A pipeline plan now nearing final shape in discussions with Trade Minister Howe offers a chance to build up the Eastern Canadian market over the next four to six years in preparation for construction of an all-Canadian line when the market is ready to absorb larger quantities of Alberta gas. The plan involves transmission through the U.S. during the first build-up period.

The scheme was submitted in outline by the Tennessee Gas Transmission Co. of the U.S. It has been reviewed, and favorably reported on, by the Bechtel Corp. as consultants to Trans-Canada Pipelines.

It was discussed at a meeting this week between Mr. Howe and Gardner Simonds of Tennessee, Stephen Bechtel of Bechtel Corp., N. A. Tanner and Charles Coates of Trans-Canada Pipelines.

Some of the Features

Full details of the plan are being kept under wraps until it has reached a more final stage. But here are its principal features:

—The Tennessee Gas Transmission Co. offers to purchase up to 500 million cu. ft. a day at Emerson, Man. This would be on a firm take or pay contract for 25 years allowing a 95% load factor. (It compares with an initial 100 million cu. ft. per day,

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rising to 200 million, under the existing contract between Trans-Canada and Northern Natural Gas Co.)

—Tennessee would take over the contract with Northern Natural, which would probably be increased immediately to 150 million cu. ft.

The price at the border suggested, but still subject to negotiation, is 23 cents per mcf. This compares with about 30 cents under the Northern Natural contract; but it is estimated that the netback to Alberta gas producers (who have been informed of this proposal) would be one or possibly two cents higher than that offered by Trans-Canada's all-Canadian scheme.

—Trans-Canada Pipe Lines would build a 34-in. pipe to Emerson, enough to carry double the contracted quantity of export gas, and leaving plenty of capacity to serve the Prairies.

After serving Northern Natural's market in the Minneapolis region, Tennessee's new pipeline would carry the Canadian gas to the outskirts of Chicago, where some sales are contemplated.

From Chicago its line would cross the plains into Northern Pennsylvania. It would join up with Tennessee's existing system at Mercer, Penn.

For Eastern Canada

In return for this 25-year supply of Canadian gas, this is what Tennessee would offer to deliver to Eastern Canada:

—At Niagara it would offer to sell Trans-Canada Pipe Lines any amount of gas up to the 500 million cu. ft. a day it gets in the West.

—There would be no stipulated minimum amount, but it would be agreed that the Eastern Cana-

dian market should be built up as quickly as possible.

—The price would be the rate prevailing in what the U.S. Federal Power Commission calls "the New York zone." This varies according to the load factor, but it is expected that the price to Trans-Canada would come to about 40 cents per mcf.

Any gas that Canada did not take back would be fed into Tennessee's system or put into their large storage capacity in Northern Pennsylvania and Western New York.

The proposed agreement stipulates that Tennessee should supply the requirements of Eastern Canada for at least three years; and that it should be given one year's notice of the intention to back its gas out by building the all-Canada line from Winnipeg east.

Once the all-Canada line is completed, it is still envisaged that there might not be a large enough market in Eastern Canada to absorb its full capacity; and the Tennessee company undertakes in that case to buy up to 150 million cu. ft. of Canadian gas off the end of the all-Canadian line at Niagara.

It is understood here that both the Alberta Government and the U.S. administration have been informally acquainted with the proposal of the Tennessee Gas Transmission Co. —



